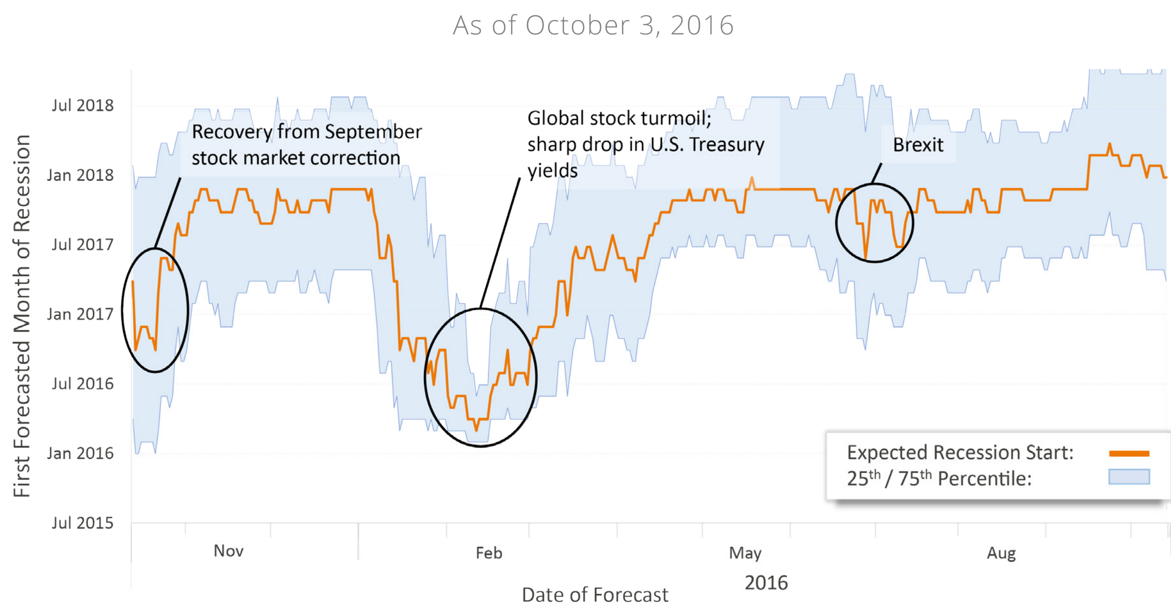
INTENSITY

CASE STUDY
A Market Perspective

Recession Timing: The effects of significant economic events



Summary

The above chart displays Intensity's daily historical forecasts of the U.S. recession timing over the past year. The horizontal axis represents the day the forecast was made based upon a combination of the latest financial and macro-economic predictive indicators. The vertical axis represents the median recession start month, delineated as the orange line, as well as the interquartile range within which there is a 25% probability of the next recession starting before, and a 25% probability of the next recession starting after.

There are several key insights that can be drawn from this chart:

- Generally, Intensity's historical forecasts have indicated the median recession start to be at the end of next year, with a recent trend toward early 2018.
- Periods occur in which recession timing has significantly pulled inward: (1) a September 2015 stock market downturn, preceded by a historic 1,000 point early trading drop in the Dow Jones Industrial Average; (2) sustained market turmoil in early 2016, evidenced by a stock market rout, declining Treasury yields, and slowing domestic and global growth; and (3) the United Kingdom's surprise vote to leave the European Union, commonly referred to as "Brexit."
- These periods highlight the interconnected nature of the U.S. business cycle to the global economy. Market analysts attributed events in both September 2015 and early 2016 in part to China's deceleration in economic growth and turbulence in the country's financial markets. Brexit jolted foreign exchange markets and generated political uncertainty regarding the future of international trade and investment policy.
- Volatile markets can lead to increased uncertainty in forecasted outcomes, demonstrated by the widening of the interquartile range in September 2015 and June 2016.

This chart provides a valuable reference to evaluate the impact of breaking economic events on the U.S. business cycle. Importantly, Intensity's daily forecast represents the timing of recession given the current state of the economy; as the economic picture changes, forecasts are updated. These capabilities, along with providing historical context for a given day's forecast, provides clarity for decision makers.